

## **Review of the Remuneration Package for District Council Members**

### **Purpose**

This paper reports the proposed enhancements to the remuneration package for District Council (DC) members.

### **Background**

#### Review of Remuneration Package

2. It is the established practice of the Government to complete the review of the remuneration package for DC members and to announce the new package about one year before the commencement of the next DC term, so that potential candidates are aware of the package before deciding whether to run in the election.

3. It is the objective of the remuneration package to facilitate a broad spectrum of individuals from different sectors and all walks of life to be DC members to serve the public. A guiding principle in reviewing DC members' remuneration package is to ensure that they are provided with sufficient resources to cover expenses arising from their DC-related functions and duties. In line with past practice, we have adopted a holistic approach in the review, giving consideration to a basket of factors such as salary increase in the job market, soaring rental of offices, price movements of commodities/services, and high level of responsibilities and public expectations placed upon DC members.

4. Details of the current remuneration package for DC members is at Annex A.

5. We conducted four focus group meetings with DC members to gauge their views on the remuneration package in late March 2018. The Independent Commission on Remuneration for Members of the District Councils of the Hong Kong Special Administrative Region (the Independent Commission) had been consulted and given its strong support to the proposals.

### **Proposals**

6. Having regard to the needs of the DC members and the prudent use of public funds, we recommend the following eight enhancements to the

remuneration package of DC members with effect from 1 January 2020 (i.e. commencement of the 2020-2023 DC term) by –

- (a) abolishing the one-third reduction in the non-accountable honorarium for DC members with concurrent membership as Executive Council (ExCo) and/or Legislative Council (LegCo) members;
- (b) using the median monthly employment earnings of managers and administrators as one of the reference indicators for reviewing the non-accountable honorarium, and increasing the rate by 5.6% from \$32,150 to \$33,950 per month at the 2019 price level (equivalent to increasing from \$385,800 to \$407,400 per annum);
- (c) using the (i) rental indices of Grade C office of all districts, (ii) median monthly employment earnings of full-time employees who are clerical support workers and (iii) Consumer Price Index (CPI) (A) as the reference indicators, among others, for the review of the accountable Operating Expenses Reimbursement (OER), and increasing the rate by 8.5% from \$41,305 to \$44,816 per month at the 2019 price level (equivalent to increasing from \$495,660 to \$537,792 per annum);
- (d) introducing a non-accountable travelling allowance for DC members under the Miscellaneous Expenses Allowance (MEA) and increasing the rate of MEA by \$2,000 from \$5,690 to \$7,690 per month at the 2019 price level (equivalent to increasing from \$68,280 to \$92,280 per annum);
- (e) calculating the annual adjustment rate based on the change in the average CPI(A) for the 12 months ended November of a year compared with the average CPI(A) for the preceding 12-month period;
- (f) allowing DC members to roll over the surplus from Medical Allowance (MA) entitlement in one calendar year to the following year until the end of a DC term;
- (g) increasing the rate of the accountable Setting-up Expenses Reimbursement (SER) by 20% from \$100,000 to \$120,000 per DC term; and increasing the entitlement of the SER from 50% to 60% for re-elected DC members who have claimed SER in a previous term but have not changed the location of their ward offices in the current term; and

- (h) introducing a separate component with no pre-set ceiling under the accountable Winding-up Expenses Reimbursement (WER) to cover actual statutory severance payment (SP) in line with the practice of the LegCo.

(A) Abolishing the one-third reduction in the non-accountable honorarium for DC members with concurrent membership

7. Under the existing mechanism, a DC member who also serves on ExCo and/or LegCo gets two-thirds of the honorarium received by other DC members with single membership. The monthly honoraria of non-official ExCo members, LegCo members and DC members are \$83,050, \$98,540 and \$32,150 respectively, and two-thirds of a DC member's honorarium is \$21,430. Currently, there are 26 DC members with multiple membership on ExCo and/or LegCo and the relevant information is set out in Annex B. We noted that the one-third reduction in honorarium also applies to LegCo members who also serve on ExCo.

Distinct roles performed by members with concurrent membership

8. As a matter of principle, a DC member with concurrent membership as an ExCo and/or LegCo member is performing distinctly different roles –

- (a) ExCo assists the Chief Executive (CE) in policy-making. ExCo members are the CE's personal advisers and are invited to tender the CE advice with their own expertise, experience, assessment of public reaction or feelings towards government proposals;
- (b) LegCo deals with a wide range of issues, including amending laws; approving budgets, taxation and public expenditure; raising questions on the work of the Government; and
- (c) DC, on the other hand, is to be consulted on district administration and other affairs, and deals with community issues concerning public facilities and services at the district level.

As the roles are different, members with concurrent membership should be entitled to both honoraria in full.

Heavier commitments and strenuous demands on members with concurrent membership

9. There is no doubt that with the increasingly complex political landscape in Hong Kong and enhanced interest in politics, serving on DC, ExCo and/or LegCo is a heavy commitment, placing strenuous demands on members. DC members with concurrent membership need to scrutinise subjects in LegCo in his/her capacity as a member elected from the geographical constituencies or functional constituencies and present the interests of their constituents.

10. Also, constituents will not expect less from DC members who are also ExCo and/or LegCo members. In fact, some constituents expect DC members with concurrent membership to resolve problematic district issues at a higher level. It is considered that the discount to their DC honorarium belittled their efforts and contribution and created the wrong perception that they are not fully devoted to their work in DC.

11. Taking into account the above, we propose that the one-third reduction in honorarium for DC members with concurrent membership in ExCo and/or LegCo be abolished.

(B) Increase in Honorarium

12. DC membership is a form of community service. Although the honorarium is not a salary, it helps reduce pecuniary loss to DC members. Many DC members, particularly those full-time members, rely on the honorarium to a certain extent to make ends meet.

13. The honorarium level is currently subject to –

- (a) annual adjustment in accordance with the movement of CPI(A); and
- (b) periodic reviews conducted by the Independent Commission.

14. DC members' honorarium was last enhanced in 2016 by a real increase of 15%.<sup>1</sup> At present, the honorarium stands at \$32,150. Some DC members have expressed the opinion that the annual adjustment of honorarium in accordance with CPI(A) is not commensurate with the salary increase in the job market and the high level of responsibilities and public expectations placed upon DC members. Having considered the relevant market indicators, including the median monthly employment earnings of managers and administrators<sup>2</sup> and the objective of the remuneration package, we propose to

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<sup>1</sup> The real increase of 15% in honorarium was effected having regard to DC members' enhanced role and responsibilities in district administration as announced in the 2014 and 2015 Policy Address (e.g. introduction of the District-led Actions Scheme) and the continued need to attract talents from different sectors to serve the public as DC members.

<sup>2</sup> Managers and administrators include administrators, commissioners and directors in

increase the honorarium for DC member by 5.6% from \$32,150 to \$33,950 per month at the 2019 price level. The inclusion of relevant market indicators<sup>3</sup> in a host of factors for reviewing honorarium in periodic reviews is in line with the existing practice adopted for LegCo members.

(C) Increase in OER

15. OER is provided for DC members to cover the expenses arising from their DC functions and duties. The major expenditure items include staff expenses, office accommodation expenses and other operating expenses (for example, utility expenses, publicity and printing). DC members may deploy their OER flexibly according to their operational needs.

16. Similar to the honorarium, OER is currently subject to annual adjustment in accordance with the movement of CPI(A), and periodic reviews conducted by the Independent Commission. OER was last increased by 34% in 2014, on top of the annual CPI(A) adjustment, based on the estimated expenditure requirement for DC members to rent a ward office at market rental, employ a full-time clerical/secretarial assistant and a part-time assistant and to cover miscellaneous operating expenses. The current level of OER is \$495,660 per annum per DC member. Many DC members have indicated that with the current level of OER, they have experienced difficulties in meeting the soaring rental of ward offices and in recruiting and/or retaining assistants with suitable experience and calibre.

17. In reviewing OER, we have taken into account –

- (a) the past spending pattern from 2012 to 2017, which showed that members spent around 24%, 65% and 11% of OER respectively on office accommodation expenses, staff expenses and other operating expenses; and
- (b) the average utilisation rate which remained at a high level of 85% and 90% in 2016 and 2017 respectively.

The actual expenditure pattern and the high utilisation rate of OER suggest that there is a genuine need to increase OER.

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government service; consuls; councillors; directors, chief executive officers, presidents, general managers, functional managers, branch managers and small business managers in industry, commerce, import and export trades, wholesale and retail trades, catering and lodging services, transport, electricity, gas, water and other services and agricultural and fishery sectors. (Source: Quarterly Report on General Household Survey, Census and Statistics Department)

<sup>3</sup> Relevant market indicators were also used for adjusting honorarium of LegCo members in previous periodic reviews.

18. Having considered the market trend and drawn reference to the relevant market indicators<sup>4</sup> for rent (rental indices of Grade C office of all districts<sup>5</sup>), wage (median monthly employment earnings of full-time employees who are clerical support workers<sup>6</sup>) and other operating expenses [CPI(A)], amongst others, we propose that OER be increased by 8.5% from \$41,305 to \$44,816 per month at the 2019 price level (equivalent to increasing from \$495,660 to \$537,792 per annum). The inclusion of relevant market indicators<sup>7</sup> as one of the factors for reviewing OER in periodic review is in line with the existing practice adopted for LegCo members.

(D) Introduction of a Non-accountable Travelling Allowance for DC Members under MEA and Increase in MEA

19. The non-accountable MEA was first introduced in 2008 to cover items like entertainment expenses, fees for self-development courses and minor purchases. Similar to the honorarium, MEA is currently subject to annual adjustment in accordance with the movement of CPI(A) and periodic reviews conducted by the Independent Commission. The existing MEA level stands at \$5,690 per month. At present, the ambit of MEA includes entertainment and liaison expenses for building up and maintaining liaison network with local residents, expenses on wreaths and floral arrangements for ceremonial occasions, accident insurance for the period a DC member is holding DC membership, periodicals, newspapers and publications for updated information of the district and territory-wide issues and self-development courses to enable DC member to handle DC matters and manage the ward office more efficiently, etc.

20. In reviewing MEA, we have taken into account –

- (a) DC members' increasing needs for self-development courses – although the expenses for self-development courses are already reimbursable under MEA, DC members have commented that the current level of MEA should be adjusted to cater for their increasing needs for self-development courses to enhance their professionalism in discharging DC duties; and

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<sup>4</sup> The relevant market indicators are weighted based on the average utilisation rates of OER's components on office accommodation expenses (24%), staff expenses (65%) and other operating expenses (11%).

<sup>5</sup> Grade C office refers to private office premises situated in buildings designed for commercial/business purpose which are plain with basic finishes; less flexible layout; small floor plates; basic lobbies; generally without central air-conditioning; barely adequate or inadequate lift services; minimal to average management; no parking facilities. (Source: Hong Kong Property Review Monthly Supplement (April 2018), Rating and Valuation Department)

<sup>6</sup> Clerical support workers include stenographers, secretaries and typists; bookkeeping, finance, shipping, filing and personnel clerks; cashiers and tellers; receptionists and information clerks. (Source: Quarterly Report on General Household Survey, Census and Statistics Department)

<sup>7</sup> Relevant market indicators were also used for adjusting OER of LegCo members in previous periodic reviews.

- (b) travelling expenses incurred for discharging DC duties – we have also received feedbacks from DC members that the travelling expenses incurred for discharging DC duties are approximately between \$1,000 and \$2,000 per month.

21. In the light of the above, we consider it reasonable to provide DC members with additional support to pursue self-development in fields they consider beneficial to their work in DCs so as to facilitate their discharge of DC duties. We also consider it reasonable to allow for travelling expenses of DC members when discharging DC duties. We note that the provision of travelling allowance is also applicable to LegCo members. Taking into account the travelling expenses (approximately between \$1,000 and \$2,000 per month) incurred by DC members for discharging their duties in the past and their increasing demand for self-development, we propose a lump sum increase of \$2,000 for MEA from \$5,690 to \$7,690 per month at the 2019 price level to meet their needs.

(E) Annual Adjustment Mechanism of DC Remuneration

22. Currently, the honorarium, OER, MEA for DC members and Entertainment Expenses Reimbursement (EER) for DC Chairmen are subject to annual adjustment with effect from January each year in accordance with the movement of CPI(A) in the previous year. Specifically, the annual adjustment rate is worked out with reference to the changes of CPI(A) between November of the previous year and November of the year before the previous year (i.e. using one month's figure).

23. However, some DC members have expressed concern that such formula based on one month's figure could not capture the changes in CPI(A) throughout the whole year. We understand their concern and hence propose that 12 months' figures, instead of one month's figure, should be taken into account when adjusting the DC remuneration. As such, we propose that the annual adjustment rate be derived from the changes in the average CPI(A) for the 12 months ending November of the previous year comparing with that for the 12 months ending November of the preceding year. For the adjustment in January 2020, this means we would compare the average CPI(A) from December 2018 to November 2019 with the average CPI(A) from December 2017 to November 2018. The proposed calculation method reflects the average price in the 12-month period and takes into account the seasonal price movements over the whole year. It is also in line with the existing practice adopted for LegCo members.

(F) Roll-over Arrangement of MA

24. DC members are entitled to MA, which may be claimed to cover the

expense for insurance coverage or medical expenses incurred. Currently, the level of MA is \$34,320 per annum which is the prevailing level of MA for LegCo members. Any unspent allowance of the year cannot be carried forward to subsequent year(s) within a DC term. The average utilisation rates from 2012 to 2017 as provided by the DC Secretariats are below 46%. Taking into account the utilisation rates, we propose allowing DC members to roll over their surpluses from one year to the subsequent year(s) until the end of a DC term so as to provide DC members with greater flexibility to cater for unforeseen circumstances. The proposed roll-over arrangement is in line with the existing arrangement applicable to LegCo members.

(G) Entitlement of SER

25. SER was first introduced in 2008 to cover the cost of setting up a ward office, such as renovation and refurbishment of premises, purchase of furniture and equipment, and other associated expenses for setting up a ward office. No adjustment to the provision has been made since 2008. Moreover, SER is not subject to annual adjustment in accordance with the movement in CPI(A). The current provision of SER for DC members remains at \$100,000 per term or \$50,000 per term for re-elected DC members who have claimed the SER in the previous term but have not changed the location of their ward offices in the current term.

26. In reviewing SER, we have taken into account –

- (a) the high utilisation rates of SER – according to the information provided by the 18 DC Secretariats, the average utilisation rates of SER in the third DC term (2008-2011) and the fourth DC term (2012-2015) are 76% and 81% respectively. A further analysis shows that during the fourth DC term (up to 31 December 2015), the average utilisation rate of SER is at least 90% for 332 (63%) DC members. For the current DC term (2016-2019), the average utilisation rate of SER up to 31 December 2017 is 55%, 150 (33%) DC members have claimed over 70% of SER; and
- (b) the increasing maintenance and equipment replacement cost – a number of re-elected DC members have pointed out that although they do not need to move their offices during the term, their old offices have become worn out after long years of operations and their furniture/equipment/software are outdated, and need to be replaced to meet operational needs. The maintenance cost of ward office and replacement cost for information technology equipment and furniture items have been increasing.

27. Against the background of SER and taking into account the above considerations, we propose an increase of SER by 20%, from \$100,000 to

\$120,000 per term. We also propose that the ceiling of SER for a re-elected DC member who has claimed SER in the previous term but has not changed the location of their ward offices in the current term be increased from 50% to 60% of the full entitlement (i.e. from \$50,000 to \$72,000 per term).

(H) Introducing a Separate Component with No Pre-set Ceiling under WER to Cover Actual Statutory SP

28. The accountable WER was first introduced in 2007 at \$72,000 per term to cover expenses required to wind up a ward office, including SP for staff of DC members. No adjustment to the provision has been made since 2007. Moreover, WER is not subject to annual adjustment in accordance with the movement in CPI(A). Under the existing arrangement, the accountable WER is claimable by outgoing DC members to cover expenses required in winding up a ward office, including reimbursement of SP for their staff if they choose not to stand for re-election, or cease office for reason(s) over which they have no control such as death, serious illness or being defeated in an election. On the other hand, DC members can also claim under the accountable OER to cover any statutory payments under labour laws.

29. When a DC member completes his/her tenure and winds up the ward office, his/her staff will be dismissed due to redundancy reason. Under the Employment Ordinance (Cap. 57), an employer is required to pay SP to his/her staff who has been employed under a continuous contract for not less than 24 months if the staff is dismissed by reason of redundancy. The amount of SP is the product of two-thirds of the last monthly salary (or two-thirds of \$22,500, whichever is less) and the number of years of service of the staff (service of an incomplete year should be calculated on a pro rata basis), to be offset by the amounts of accrued benefits from employers' mandatory contributions in mandatory provident fund (MPF) scheme/gratuity/relevant occupational retirement scheme benefits received by the staff concerned.

30. The granting of SP is a statutory requirement. Similar to the existing arrangement for LegCo members, we propose to provide a separate component with no pre-set ceiling under WER, payable on the basis of the actual SP paid in accordance with the provisions of the Employment Ordinance (Cap. 57) to staff employed by using their accountable allowance/expenses reimbursement.

31. Once the proposed separate component of SP under WER is introduced, the reimbursement of WER will consist of two components: (i) a fixed amount at \$72,000 to cover all expenses other than SP; and (ii) the proposed separate component with no pre-set ceiling to cover actual SP made in accordance with the provisions of the Employment Ordinance (Cap. 57) mentioned above. With this new proposal, SP is no longer covered by the first component.

32. Apart from SP, a DC member, being an employer, is also responsible for paying Long Service Payment (LSP) to his/her staff in a number of circumstances<sup>8</sup>. The Government has recently proposed abolishing the offsetting arrangement of SP/LSP with employers' mandatory contributions under the MPF System. We note that if the MPF offsetting arrangement is abolished, it would likely create additional financial burden on DC members. We will pay close attention to the development of the offsetting arrangement and will consider necessary follow-up actions in future reviews.

### Other Components of the Remuneration Package

33. The current levels of other components of the remuneration package (including end-of-term gratuity, EER for DC Chairmen and provision for duty visits outside Hong Kong) would remain unchanged, but subject to review in future.

34. According to the existing mechanism, we shall review regularly DC members' remuneration, including the adjustment according to the CPI(A) and reviews on the arrangements of DC members' remuneration conducted by the Independent Commission. DC members have commented that conducting periodic reviews every four years and annual adjustment based on CPI(A) may not reflect timely the annual changes in prices and their expenses, especially the soaring rental and staff cost of OER. We will keep in view members' expenses in the next DC term vis-à-vis their allowances as revised.

### **Schedule of Implementation**

35. It is an established practice that any proposal involving substantial changes to the remuneration package for DC members shall only take effect from the beginning of the next DC term. Therefore, the proposals set out in paragraph 6 above will be implemented with effect from 1 January 2020 (i.e. commencement of the 2020-2023 DC term).

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<sup>8</sup> For circumstances where the staff has been employed under a continuous contract for not less than five years, including where the staff is dismissed and his employer is not liable to pay him a SP by reason thereof, and it is not a dismissal without notice or payment in lieu under the law; where the staff resigns on grounds that he/she is certified as being permanently unfit for the type of work being engaged in under the contract, or resigns at an age of 65 or above; or where the staff dies.

## **Way Forward**

36. We will consult the LegCo Home Affairs Panel on 28 January 2019, and plan to submit the proposals to the Finance Committee of LegCo for consideration in the first quarter of 2019.

Home Affairs Bureau/  
Home Affairs Department  
January 2019